

PRIVILEGED AND CONFIDENTIAL COMMUNICATION SUBJECT TO JOINT DEFENSE AGREEMENT

<p align="center">HONOLULU HIGH-CAPACITY TRANSIT CORRIDOR PROJECT Response to Final EIS Public Comments December 21, 2010</p>					
Comment No.	Date	Commenter	Comment	Response	Issue Previously Addressed
199	8/15/10 Letter	Richard W. Ubersax	Recent reports by FTA and correspondence between FTA and the City clearly indicate FTA's concerns about the robustness of the last-published financial plan for the Project (i.e., Financial Plan for Entry into Preliminary Engineering Submittal, August 2009). The FEIS does not reflect these concerns, and the City continues to contend that the "the rail project is on solid financial footing".	The FEIS reflects the information submitted as part of the application to enter Preliminary Engineering as is appropriate. FTA will not allow the project to enter into Final design until it has issued a record of decision (ROD), but does not require an updated financial plan until the project requests entry into Final Design which would contain more refined cost and revenue information based on more detailed preliminary engineering analysis. The City has provided all the financial information required at this time.	Yes
200	8/15/10 Letter	Richard W. Ubersax	The Financial Feasibility section (Chapter 7.5) of the FEIS contains substantive changes from the DEIS.	The only change was the higher ridership and the associated generation of larger user benefits based on adherence to the FTA's process. There are no other major changes made to this section between the Draft and Final EIS.	No
201	8/15/10 letter	Richard W. Ubersax	Using Section 5307 funds to finance the project represents a significant departure from the DEIS... The downturn in the economy has resulted in a downward revision in projected GET surcharge revenues by about \$300 million. The City now plans to offset the GET deficit ("as necessary") by reallocation of \$301 million of federal Section 5307 formula funds from the bus ongoing capital revenues program to the rail program. Although this reallocation may fall within the purview of	As stated in Chapter 6, TheBus service will be expanded with the project and capital and O&M costs for enhanced bus service are included in the project budget. Additionally, Section 5307 funds will actually increase as a result of implementation of the Project, which makes it a reasonable project funding option. Under any circumstances, the City will try to minimize the use of 5307 funds if they are needed, but it is an allowable source and consistent with the intended funding program. Bus service will not suffer in the program as presented.	No

Comment [eaz1]: FTA does not permit project sponsors to enter final design until after FTA issues a ROD, FONSI or CE.

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			<p>Section 5307 guidelines and City Ordinance 07-001 [which states that capital cost and interest for the Project "shall be paid entirely from general excise and use tax surcharge revenues, interest earned on the revenues, and any federal, state, or private revenues."], at a minimum this would violate the intent and spirit of the ordinance and would certainly be contrary to what the people of Honolulu have been led to believe concerning funding of the Project.</p> <p>The City has assured that the bus program will not suffer from this reallocation, but it has not been forthright in disclosing that the resulting shortfall in the bus program will be made up by redirecting funds from other local revenue sources such as property and/or use taxes, or by floating additional GO bonds (which are ultimately paid off with local revenue sources). In essence, use of local funds to replace the 5307 funds that have been shifted from the bus program to the Project is equivalent to spending local-source funds on the Project directly.</p>		
202	8/15/10	Richard W.	The City's measure of financial feasibility as	The Section 5307 funds are allowable under the	Yes

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	letter	Ubersax	<p>stated in the DEIS and FEIS is whether GET revenues and New Starts funding are sufficient to fund the Project.</p> <p>In section 7.5.1 of the FEIS it is stated: “The amount of other revenues required over and above GET Surcharge and New Starts revenues provide a measure of the relative financial feasibility of the Project. Operating costs for the transit system as a whole represent an average of 13.8 percent of the City’s annual operating budget between 2019 and 2030 (Table 7-6). The Project represents approximately 25 percent of that amount.” The Project is financially feasible based on this measure because it would not require additional funding sources beyond the GET surcharge revenues and Federal Funds.”</p> <p>However, according to the Table 6.4 of the FEIS and the August 2009 Financial Plan, \$301 million of FTA Section 5307 funds (i.e., “additional funds”) will be used to fund the project. By the City’s own criteria, a more accurate statement would be: The Project is not financially feasible based on this measure because it would require additional funding through reallocation of FTA Section 5307</p>	financial plan structure and consistent with the federal and GET surcharge. The funding program meets the criterion of financial feasibility.	

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			formula funds from bus ongoing capital expenditures to fund the Project.		
203	8/15/10 letter	Richard W. Ubersax	<p>Financial Feasibility by FTA's broader criteria:</p> <p>The plan to reallocate 5307 funds to the Project seems to be an expedient solution to balance the financial plan, but in so doing, funds from other public programs will have to be funneled into the bus program to maintain the existing level of bus service. This will undoubtedly affect the level and quality of these other programs. The financial feasibility of the Project needs to be judged against FTA's broader criteria of the City's capacity to provide funding resources "without impacting other necessary City services," (Ref 1, p.17). The City acknowledges that other revenue sources are hard to find: "any capital funding shortfalls would need to be covered using additional revenues from other as-yet-unidentified sources" (FEIS 7.5.1). Although the August 2009 Financial Plan outlines several potential sources (summarized in Section 6.3.3 of FEIS), the FTA Financial Management Oversight Consultant has said that "none of these concepts have been</p>	There is no expectation that other city funds will need to be used to offset Section 5307 funds. The bus system remains whole and is actually expanded under the rail plan. All the costs of the transit system (buses, rail, etc.) are included in the cost analysis.	No

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			<p>developed to the point that would allow their reasonableness to be established.” (Ref 1, p. 11)</p> <p>In the absence of any additional funding sources that do not impact other City programs, the City’s financial plan must be judged as unsound.</p>		
204	8/15/10 letter	Richard W. Ubersax	<p>FTA’s assessment of Financial Feasibility: While the City contends that the Financial Plan is sound, public reports and correspondence disclosed by FTA indicates that approval to continue beyond PE is tenuous unless the financial plan is bolstered. In FTA’s letter to the City granting approval to enter Preliminary Engineering (October 16, 2009)3, FTA alerts the City (p.2) that “Some elements of the current financial plan may not fare well in the stress tests that FTA will apply to evaluate robustness [for entry into final design]. These elements include the projected revenue stream from the General Excise Tax, the diversion of FTA Section 5307 funds from ongoing capital needs of the bus system, and the increasing share of the City’s annual budget that is required to fund the transit system. Were this plan submitted today in support of a request of advance the project into final design, its weakness would likely cause</p>	<p>This is the process for New Starts projects. As the project moves through the various stages of the work, the requirements become more stringent and the information about the project becomes better defined. While the financial plan used for Preliminary Engineering might not fare well when applying for Final Design, the revenue plan and project costs will be more refined, contingencies reduced a better understanding of how they relate will be developed. The comments by the FTA do not mean the project won’t meet the FTA requirements. It only points out the areas that require additional refinement as the project moves forward.</p>	Yes

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			FTA to deny the request".		
205	8/15/10 letter	Richard W. Ubersax	<p>In FTA's "FY 2011 New Starts Financial Assessment", the Project is assigned a Medium rating for the overall "Project Capital Financial Plan" category. But it is extremely concerning that a Low rating is assigned to the sub-category "Capital Cost Estimates, Assumptions and Financial Capacity" (which comprises 50% of overall rating). This low rating reflects FTA's "concerns about revenues, debt capacity, and the City's capacity to absorb potentially large revenue risks"(p.2). It is further elaborated (p.11): "The major factors contributing to this rating are: (i) material downside risks to the GET surcharge revenue forecast, and consequently the inability to cover all debt service cost; (ii) no net debt capacity; and (iii) lack of information to substantiate the City's capacity to absorb a material amount (up to \$535 million) of cost risk. In addition to these concerns, bus capital funding – clearly needed as evidenced by the relatively old age of the bus fleet – depends on a much higher level of Federal funding than has previously been the case."</p>	<p>The concern about this factor is recognized, but it is because it is a commentary on the risk potential for a financial plan. The next version of the plan will address the risk element in more detail with more accurate cost estimates and better revenue forecasting. It will satisfy this concern. That is the way the New Starts process works.</p>	Yes

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206	8/15/10 Letter	Richard W. Ubersax	These concerns are not reflected in the FEIS. To maintain objectivity, transparency, and credibility of the FEIS, they should be discussed in detail.	The FEIS is not a financial plan and a financial plan is, in fact, not a requirement of NEPA. Chapter 6 is included to provide information only. The level of detail in the FEIS is, as a result, abridged. For the detail, it is best to review the financial plan.	Yes
207	8/15/10 letter	Richard W. Ubersax	<p>Competition with other projects for capital funding:</p> <p>With respect to the City's overall capacity to sufficiently fund this project, FTA has appropriately considered other capital needs of the City. FTA should be aware of a pending Consent Decree among the City, the United States EPA, the State of Hawaii, and several environmental groups. The Consent Decree mandates that the City make major upgrades to its wastewater collection and treatment facilities at significant cost. The Consent Decree was approved by City Council on July 14, 2010, and now requires approval by the United States Department of Justice, the State of Hawaii, and the environmental groups. The City estimates that upgrades of the wastewater collection system will be \$3.5 billion (in 2010 \$) to be completed in 10 years, and upgrades of</p>	The source of funding for the rail project is dedicated to rail and rail only. It cannot be used for sewers. The sewers will most likely be funded by a long term rate adjustment consistent with its enterprise fund provisions.	No

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			the wastewater treatment facilities will be \$1.155 billion to be completed in two stages by 2024 and 2035, for a total of \$4.655 billion (2010\$). The City estimates that the upgrades will be funded by increases in sewer usage fees over the next 25 years by 3-5% annually. The total cost of the projects in inflated YOY dollars is expected to be over \$5.6 billion (2% annual inflation rate), and interest expense is estimated to be \$1.6 billion (3.96% interest rate). The City administration contends that its constituents can pay for both the rail transit and wastewater projects with minimal financial impact on their families.		
208	8/15/10 letter	Richard W. Ubersax	The financial implications of the wastewater projects on the rail-transit project and on the residents of Oahu should be disclosed in the FEIS.	The sewer issues are not related to the rail project in any way.	No
209	8/15/10 letter	Richard W. Ubersax	It is clear that the City has had to stretch to make the financial plan for the rail-transit project balance. Without additional "as-yet-unidentified" financial resources and the added burden of the sewer and wastewater treatment	The sewer issue is unrelated to the rail project. There is no evidence that the city's bond rating will drop because of the concerns you mention.	Yes

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			projects, the City's debt capacity will be overextended, it's bond rating will drop, and an undue financial burden will be put on its residents.		
210	8/15/10	Richard W. Ubersax	It is also clear that the planned extensions to Kapolei, UH Manoa, and Waikiki are now unaffordable and in jeopardy.	The extensions were never planned to be funded by the current GET surcharge. They will require a new source of funding or an extension on the GET surcharge.	N/A